



SF 436 – Historic Property Tax Credits (LSB 2374SV)

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Fiscal Note Version – New

Description

Senate File 436 relates to the existing Historic Preservation and Cultural and Entertainment District Tax Credit. This Bill increases the annual tax credit cap from the current level of \$45.0 million to \$60.0 million for FY 2014, FY 2015, and FY 2016. Starting FY 2017, the annual cap is then set at \$50.0 million.

This Bill also increases the size of projects that qualify under the 10.0% small project set-aside portion of the program and increases the time available for completion of a project from the current five years to six years.

This Bill is effective on enactment.

Background

The Historic Preservation and Cultural and Entertainment District Tax Credit Program is administered by the Department of Cultural Affairs. The tax credit is available for rehabilitation costs associated with qualified historic buildings. The department is allowed to award tax credits for the current fiscal year plus two future fiscal years. Compared to current law, the increase for three fiscal years from \$45.0 million to \$60.0 million will make an additional \$45.0 million in tax credits available July 1, 2013.

Assumptions

- Tax credits cannot be redeemed until after the project is completed. Due to the time it takes to complete projects, tax credits awarded for a fiscal year are redeemed over a number of fiscal years. Tax credits awarded for a fiscal year are assumed to be redeemed over the following schedule, with year 1 equal to the initial year of the credit.
 - Year 1 = 2.0%
 - Year 2 = 19.0%
 - Year 3 = 25.0%
 - Year 4 = 19.0%
 - Year 5 = 10.0%
 - Year 6 = 10.0%
 - Year 7 = 10.0%
 - Year 8 = 5.0%
- All tax credits will be awarded each year.
- Tax credits for projects that are never completed will be recaptured and awarded to other projects.
- The tax credits are transferable and refundable, so all earned credits will be redeemed.
- Refundable tax credits do not impact the local option income surtax for schools.
- The change to allow up to six years to complete a project instead of the current five years will only have an impact on credit redemption timing.

- The changes to the 10.0% small project set-aside will allow that category of projects to be fully utilized going forward.
- The Department of Cultural Affairs projects that annual staff and support expenditures for the Historic Preservation Program will increase \$200,000 due to the tax credit cap increase, while fee revenue collected will increase \$140,000.

Fiscal Impact

Increasing the annual fiscal year cap on the Historic Preservation and Cultural and Entertainment District Tax Credit Program will impact the State General Fund through the increased redemption of tax credits. The projected impact is included in the following table.

Net General Fund Revenue Reduction	
Dollars in millions	
	Credit Claims
FY 2014	\$ -0.3
FY 2015	-3.2
FY 2016	-6.9
FY 2017	-9.6
FY 2018	-9.2
FY 2019	-8.2
FY 2020	-7.8
FY 2021	-7.5
FY 2022	-6.5
FY 2023	-5.5
FY 2024 & after	-5.0

The increase in the tax credit cap will result in an increase in project applications and awards. This will in turn increase the required workload of the Department of Cultural Affairs. Prior to FY 2013, the historic preservation efforts of the department were covered by a combination of fees charged, State General Fund, and federal dollars. Beginning in FY 2013, the program is funded solely by fees charged to tax applicant projects. At the conclusion of FY 2013, the department projects \$755,000 in fee revenue carried-forward from previous years. Assuming the increased workload, the department expects the fee balance to drop to \$600,000 by the end of FY 2014.

Sources

Iowa Department of Revenue
 Department of Cultural Affairs
 Legislative Services Agency Analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
